CalPERS
Investment Office
P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400

October 17, 2005

AGENDA ITEM 6a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

I. SUBJECT: Global Fixed Income Annual Plan

II. PROGRAM: Global Fixed Income

III. RECOMMENDATION: Approval of the Global Fixed Income Annual Plan

IV. ANALYSIS:

Attached is the CalPERS Global Fixed Income Annual Plan for the fiscal year 2005-2006. The intent of the presentation is to provide the Investment Committee with a review of the recent year's accomplishments and to obtain the Investment Committee's approval of the CalPERS Global Fixed Income go0als for the current fiscal year.

The presentation will provide a review of performance for each major program area, a review of accomplishments for the fiscal year ending 2005 and a review of market conditions for the past fiscal year. Additionally, Staff will present their proposed goals for fiscal year 2005-2006 and their fixed income market outlook.

Staff looks forward to presenting this information and addressing any questions the Investment Committee may have.

V. STRATEGIC PLAN:

This item supports Goal IX: Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Attached is a presentation of the Global Fixed Income 2005-2006 Annual Plan.

Curtis D. Ishii
Senior Investment Officer

Anne Stausboll
Assistant Executive Officer

Mark Anson
Chief Investment Officer

Global Fixed Income

Annual Plan:
Fiscal Year 2005-2006

October 17, 2005

CalPERS

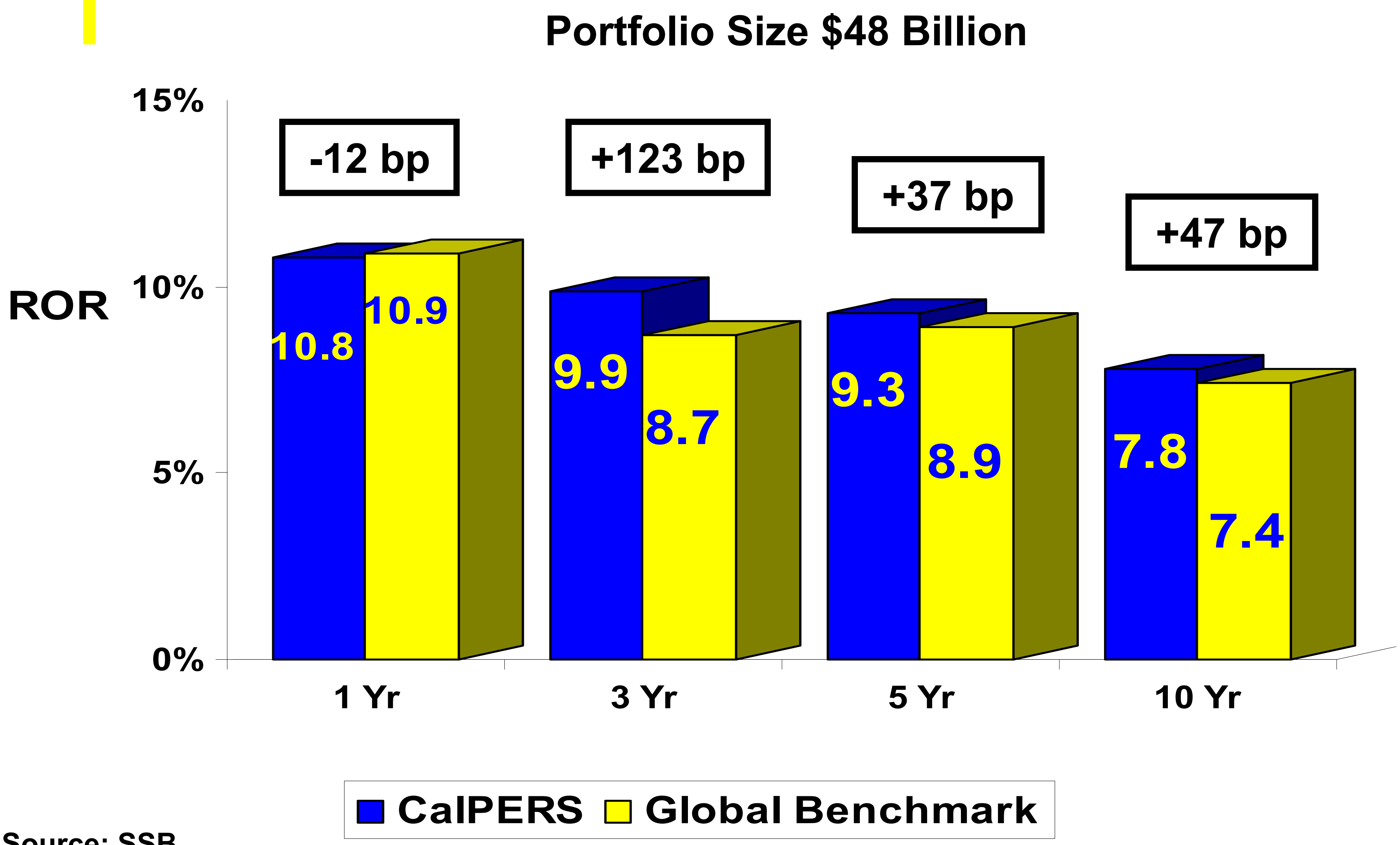
Table of Contents

- Global Fixed Income Returns
- Accomplishments 2004/05
- Outlook
- Market Environment
- Annual Plan

Goal IX

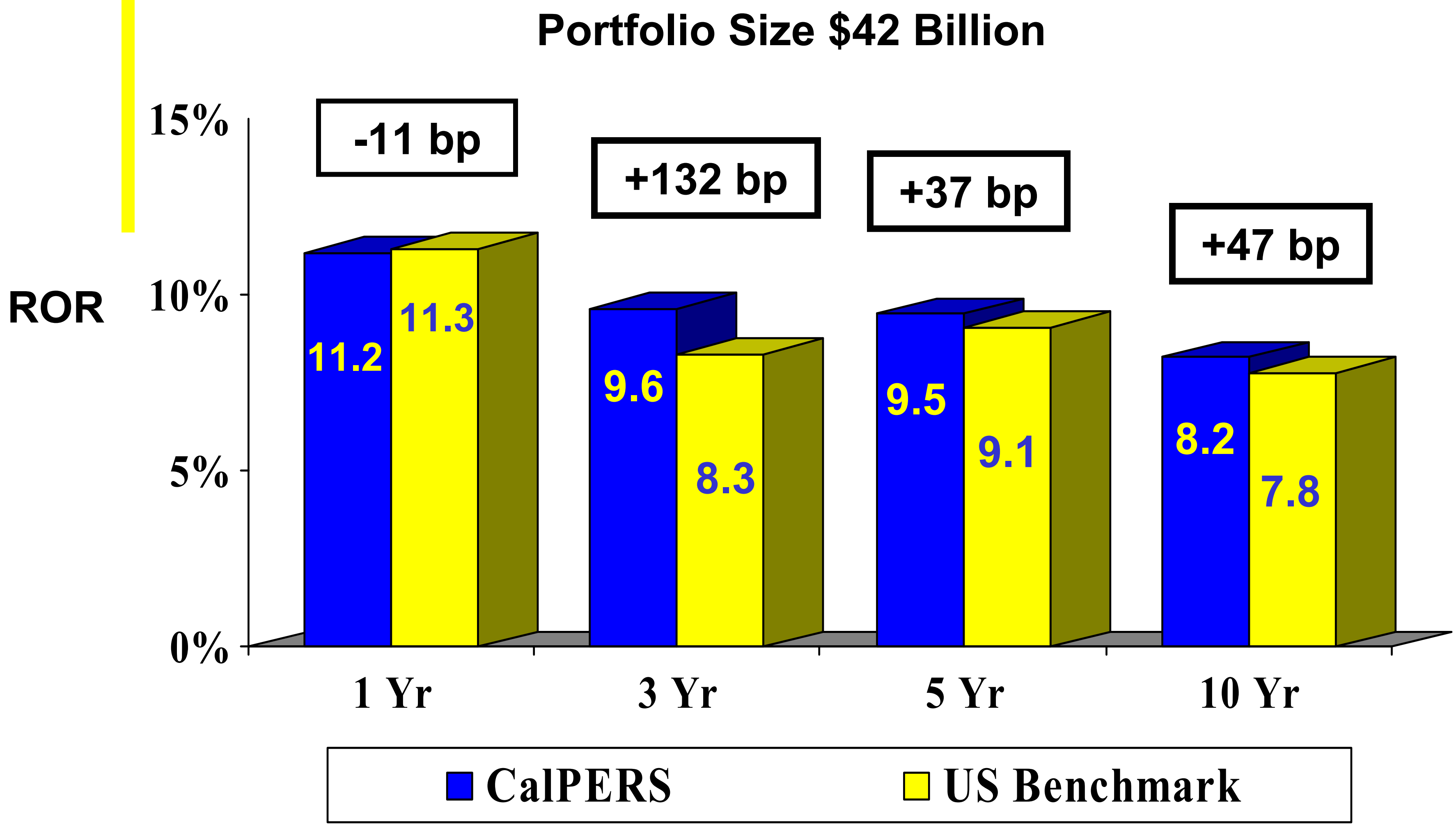
“Achieve long-term sustainable, risk adjusted returns”

Global Fixed Income Annualized Active Return Ending 6/30/05



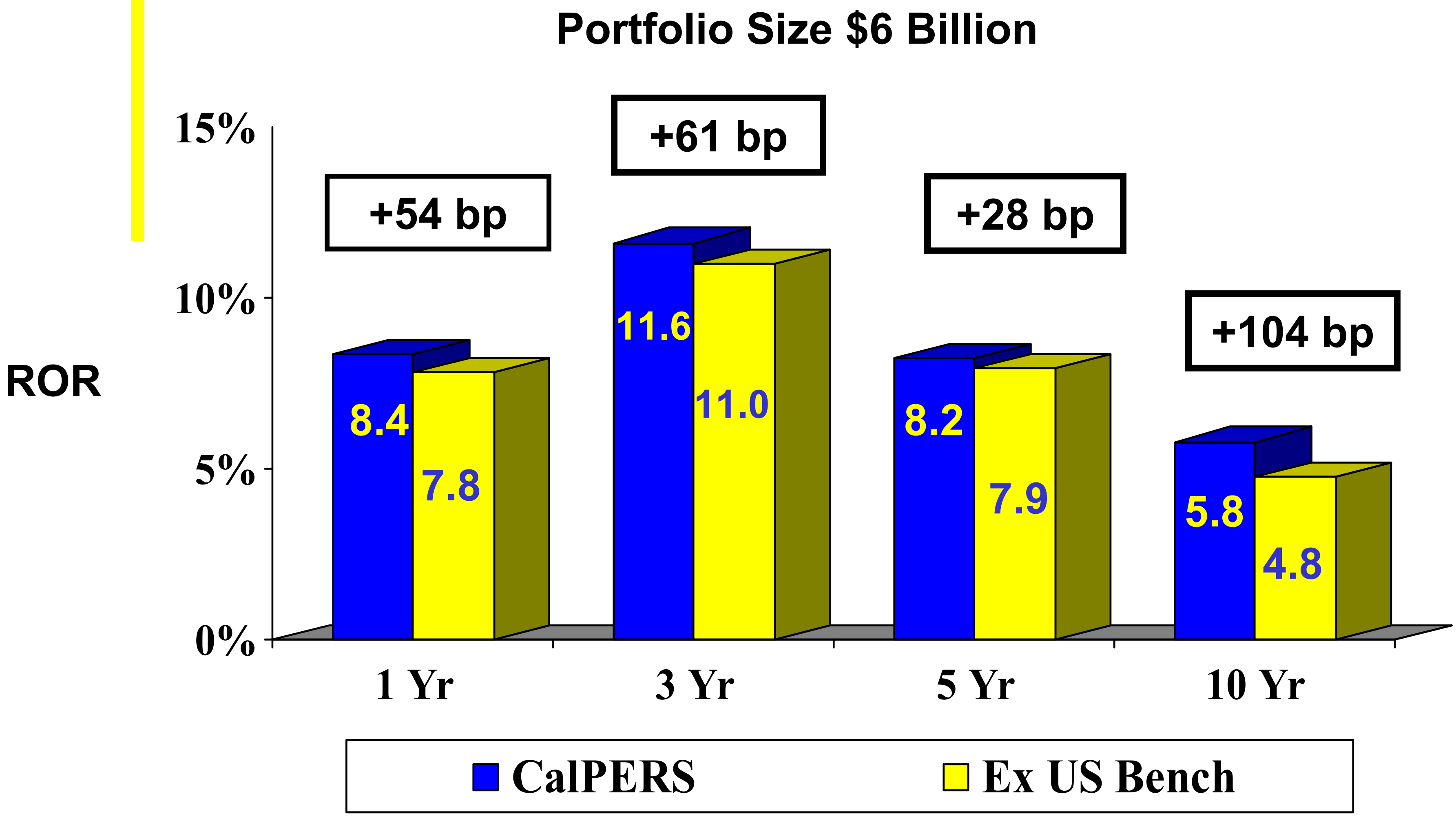
Source: SSB

US Internally Managed Fixed Income Annualized Active Return Ending 6/30/05



Source: SSB

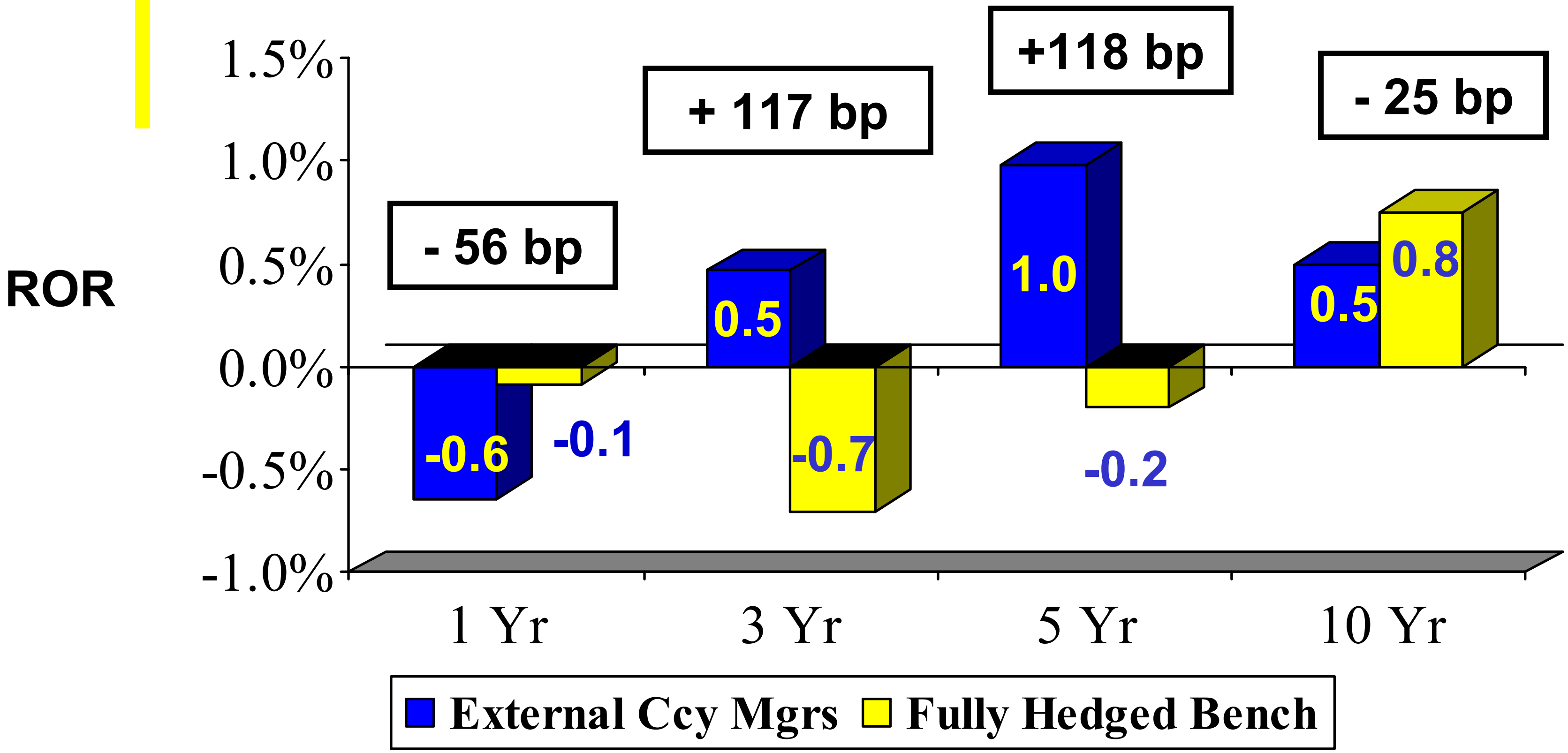
International Fixed Income Annualized Active Return Ending 6/30/05



Source: SSB

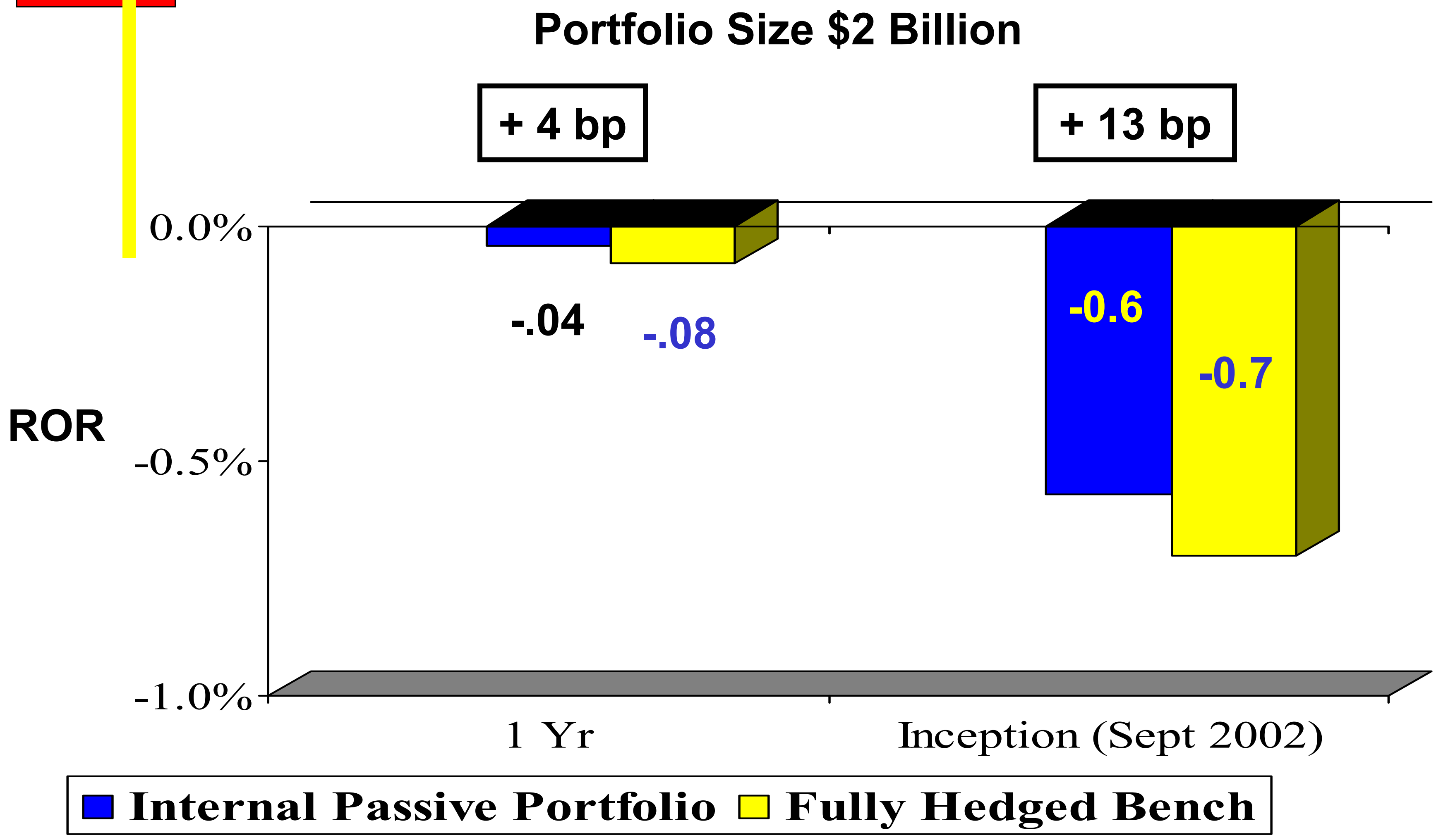
External Active Currency Overlay Annualized Returns Ending 6/30/05

Portfolio Size $8 Billion



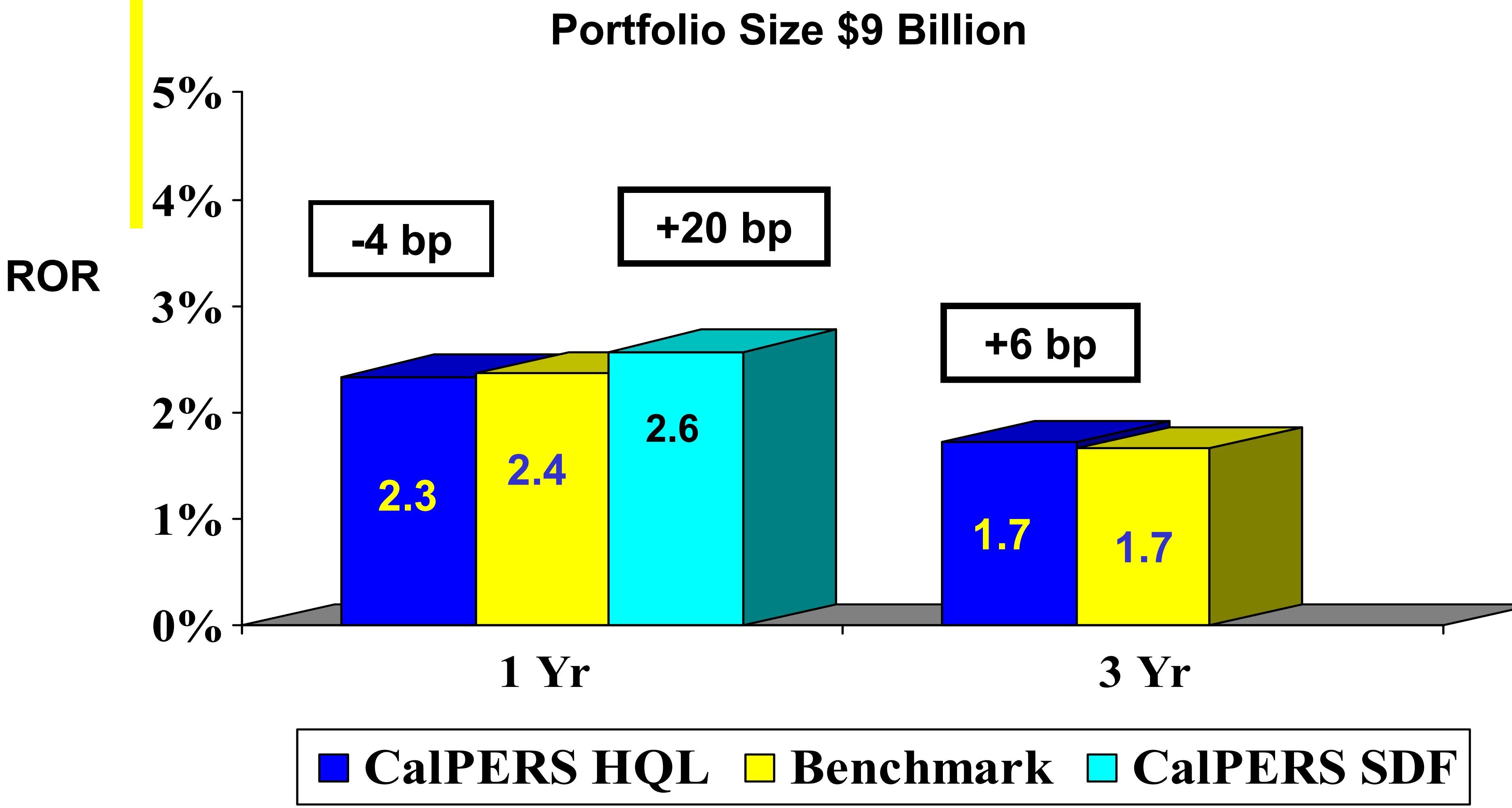
Source: SSB

Internal Passive Currency Overlay Annualized Returns Ending 6/30/05



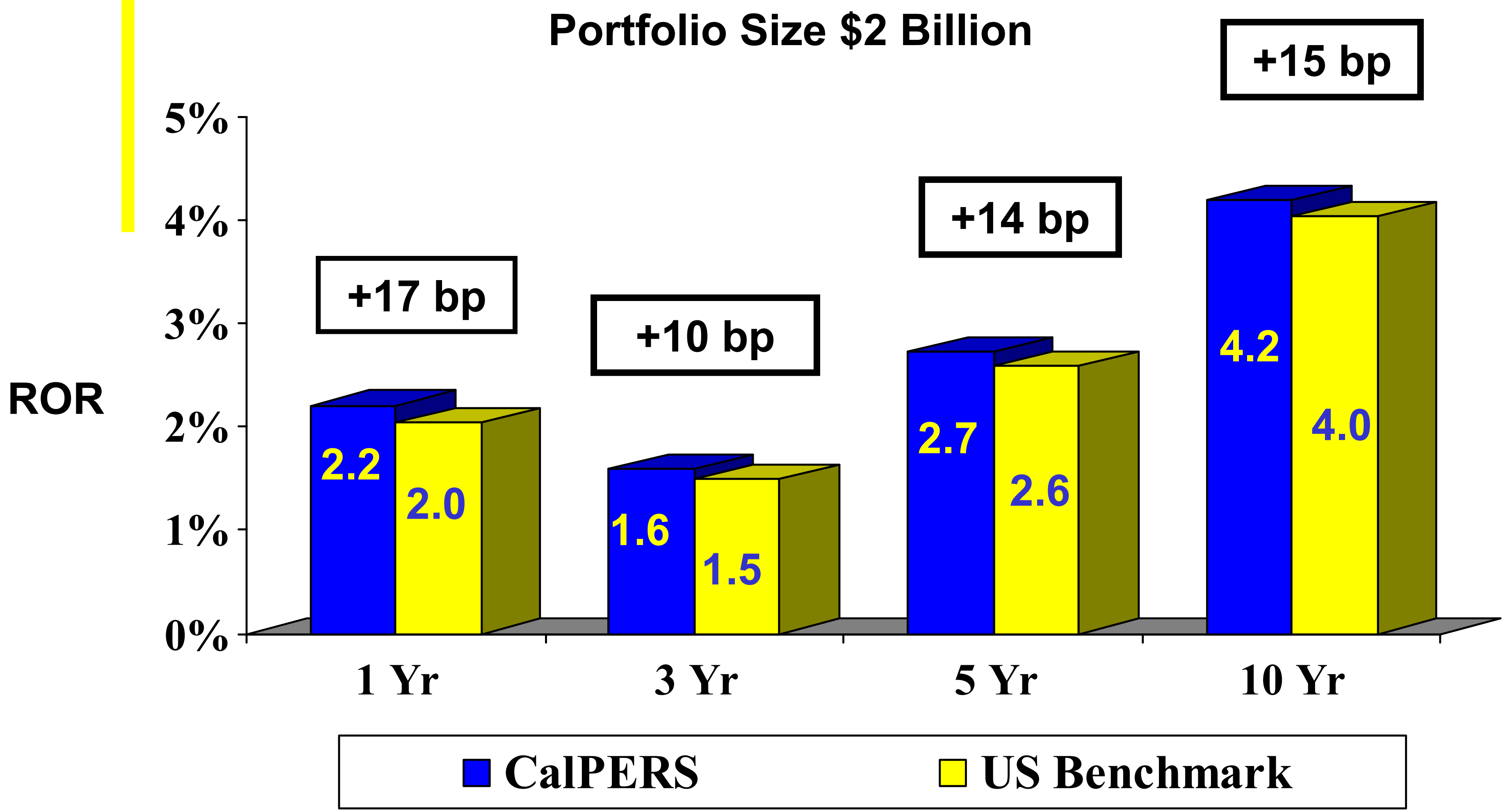
Source SSB

Short Duration Annualized Active Return Ending 6/30/05



Source: SSB

Short Term Overnight Annualized Active Return Ending 6/30/05



Source: SSB

Long Term Scorecard

Domestic Fixed Income

- Since 1986 annualized alpha +39 bp and alpha was positive in 14 out of 19 years
  - .737 Batting Average

International Fixed Income

- Since inception (1989) annualized alpha +101 bp

Currency Overlay

- Since inception (1992) reduced annualized volatility by 29 bp

Long Term Scorecard

Short Duration

- Since inception (2000) High Quality LIBOR Portfolio annualized alpha +42 bp
- Since inception (2003) Short Duration annualized alpha +19 bp

Short Term Overnight

- Since Inception (Benchmark established in 1992) annualized alpha +19 bp

Securities Lending

- Since 1999, profits increase 250%

Accomplishments for 2004/05

- IC adoption of Foreign Debt Policy
- Initiated Credit Enhancement Program
- $115 million profit in securities lending
- Back to Basics
  - Filled SPM Position
  - Securities Lending
    - New markets, improve compliance, more $ in-house
  - Corporate Portfolio
    - Diversified portfolio
    - Policy change 1% cap on corporate benchmark

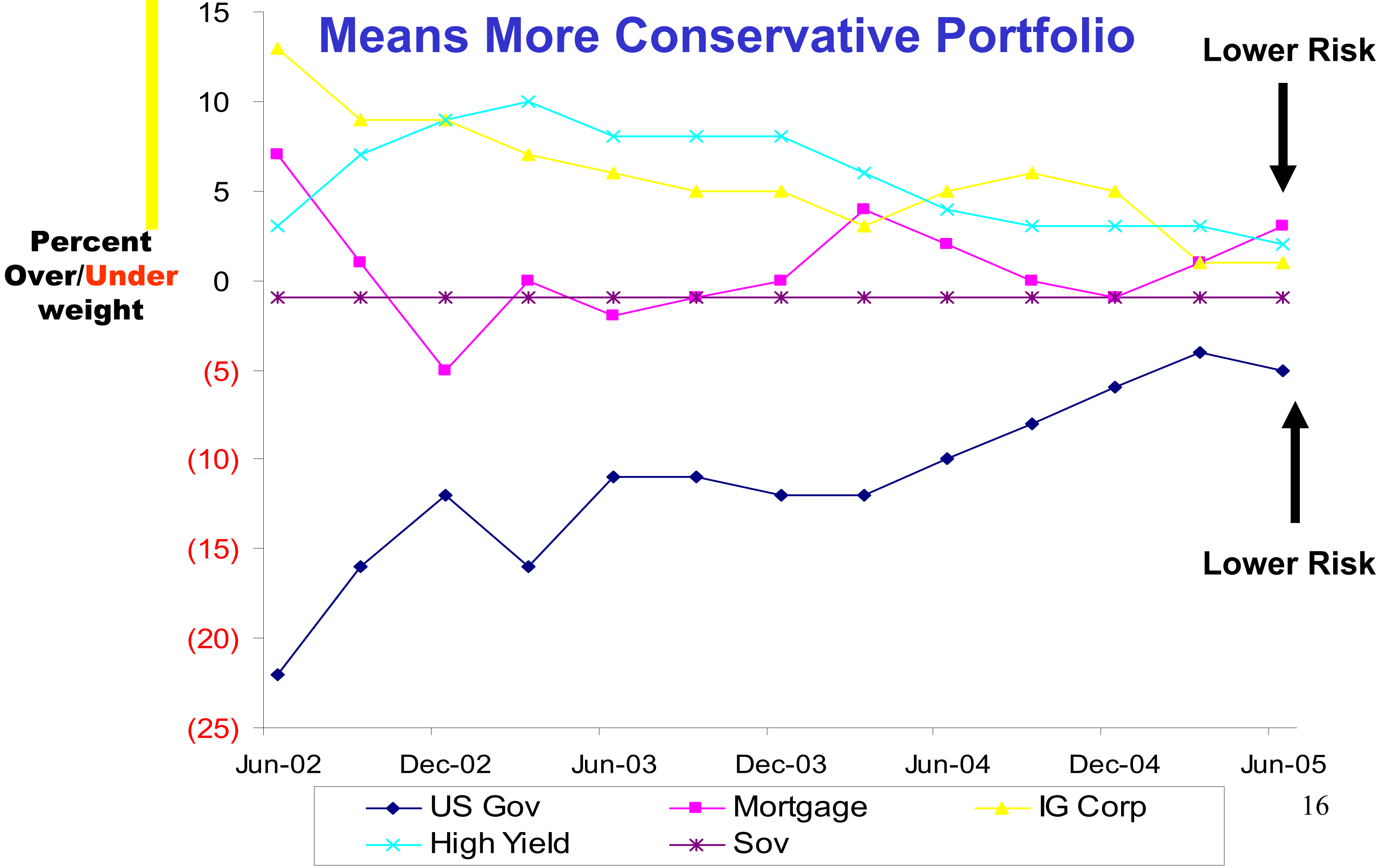
Market Environment FY 2004/05

- Rising short term interest rates
- Falling long term interest rates
- Falling real rates
- Credit and mortgage spreads at historically narrow levels

Annual Plan for 2005/06

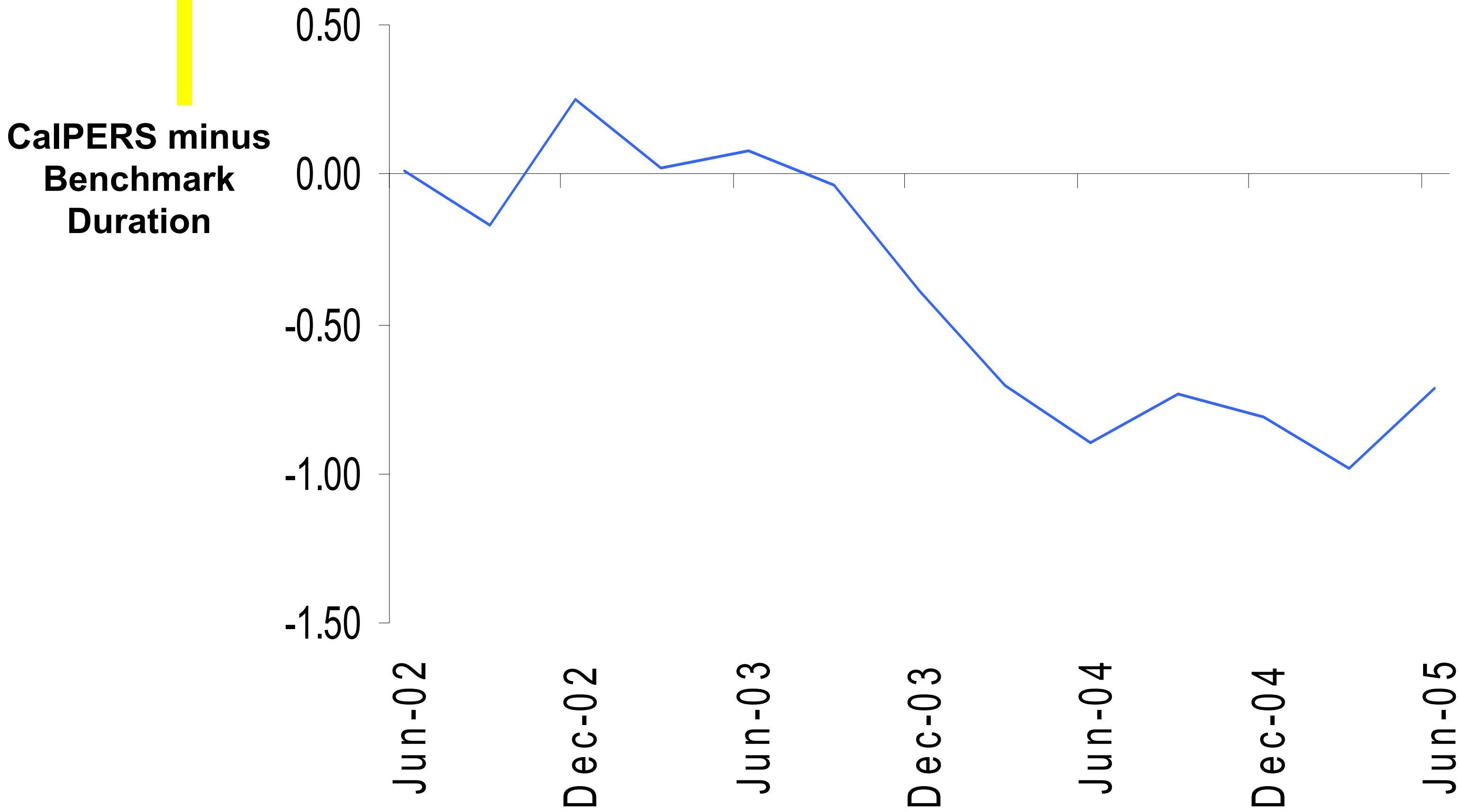
- Bring in-house an additional $2 billion in collateral management from securities lending
- Commit $1 Billion to Credit Enhancement Program
- Bring in-house an additional $1 Billion in internal currency overlay management
- Conduct search for international managers
- Keep risk positions low until spread premiums widen or long term interest rates rise

Outlook- Wider Sector Spreads



Outlook Higher Interest Rates

Staff's Response is to Reduce Duration



Summary

- Excellent long term results in all programs
- Continue to "in-source"
- US internal portfolio
  - Reducing sector risk exposure
  - Lower duration than the index
    - Less exposed to rising interest rates
    - Underperforms the index in falling interest rates